

Starting a Nonprofit 2012

Nonprofit 101:

Launching a new nonprofit organization can be a daunting task. This section helps you understand what it really means to be a nonprofit and some of the issues you should consider before actually getting started. Have you done your basic market research? Have you considered the alternatives? Do you have the time and resources, and even the personality to start a new organization? Read below for more information to help you answer these questions!

Nonprofit organizations

A nonprofit organization is one that exists for the public good, rather than to benefit individual owners. Any generated income or property owned by a nonprofit, whether profit or not, is used to support the mission of the organization.

Nonprofit organizations can be unincorporated associations, but in VA most take the legal form of non-stock corporations. As a non-stock corporation, the nonprofit is a separate entity from its members so it can own its own property and bank account and offer limited liability for its members. It is run by a board of directors and owned by the public, not by its founder(s).

Nonprofit organizations may be eligible for tax-exempt, 501(c) status with the IRS, which, if obtained, makes them exempt from federal income tax. Donations to 501(c) organizations are also tax-deductible. As part of this deal, nonprofit organizations are required to provide services for the public good in accordance with their mission.

You might consider starting a nonprofit if you have identified an unmet need in your community and believe the nonprofit structure is the best option for responding to the need. Starting a nonprofit corporation can be a way to formalize an existing charitable activity and to facilitate tax-exempt donations. However, it is important that you conduct basic market research from the get-go to determine if there really is a need for your nonprofit (see below).

Basic market research: know your clients and competition

If you're considering starting a new organization, you should first conduct basic market research on your potential clients and their needs. Going through this process can help you prevent starting up a new nonprofit only to discover that the services are not needed. Being able to demonstrate that the need or opportunity exists would validate your organization to the community. Basic market research can be done by sharing your ideas with and getting input from leaders in existing organizations and the community you would like to serve.

You should also conduct some basic market research on what related nonprofits are currently doing and if they are already addressing the public need you would target. If there are other nonprofits already doing similar work, then you will just end up competing with them for both clients and funding. It is a good idea to make an initial effort to contact and possibly collaborate with local nonprofits with similar missions. If an organization doesn't already exist to provide the services you want to offer, it may be a good indication to start one or it may mean that there isn't a need for the organization.

Check out our [local nonprofit directory](#) to get started.

Alternatives to starting a new nonprofit

- Join an already established nonprofit as a volunteer, board member, or staff
- Work with an already active nonprofit compatible with your ideas and values; collaborate with them to develop a special project to meet a specific public need
- Start a local chapter of a national organization if there isn't already one
- Form an informal nonprofit: an informal gathering of people to meet a short-term and local need
- Become a social entrepreneur: running a for-profit business with social goals and charitable causes in mind
- Fiscal sponsorship: a fiscal sponsor shares its tax-exempt and tax-deductible status with the sponsored program, the new program operates as a program of fiscal sponsor

Questions to ask before launching a new nonprofit

- Have you done basic market research to show that the need and opportunity for your nonprofit exists?
- Can you clearly state your mission? See next section for more information.
- Do you have a clear idea of what success would look like? Do you have specific goals and outcomes to measure success?
- Will others in your community commit time and resources to your cause?
- Did you consider any of the alternatives to starting a new nonprofit (see above), and have you decided that this is really the best route for you to take?
- What are the most common startup mistakes?

Other things to consider before getting started

- Already over 700 nonprofits in the greater Charlottesville area that address a comprehensive range of community needs: health, education, poverty, homelessness, energy, arts, and more
- Nonprofits face increasing competition and diminishing resources
- Many nonprofits end up failing, become inactive, or have to operate in financial distress
- No "free money" for nonprofits – you will have to apply for various grants and loans, etc, all with their own applications and eligibility requirements. Foundations and corporations establish how any money they donate will be used.
- A compelling mission and unbridled enthusiasm for your nonprofit are necessary but not sufficient attributes for nonprofit sustainability

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Getting Started:

If you've decided that starting a new nonprofit organization is the best way for you to go, a good place to get started is with formulating your organization's mission statement as well as setting up a business plan. Both of these will help guide the governance of the nonprofit, especially in its early development stage.

The Mission Statement

The mission statement provides the purpose of your organization and how you plan to meet that mission. In general, the mission statement should answer the following questions:

- Why should this organization exist? What is its purpose and intended impact on the community?
- What are the services you plan to provide?
- Who is the target client group?
- Who are the staff and/or volunteers needed to deliver the service?
- Where will your organization be located? What are the geographic parameters that define your service area?
- How do you plan to deliver the services?

Good characteristics of mission statements include that they are focused, solve unmet public needs, leverage unique skills, anticipate change, and memorable. The mission statement will also be important in guiding how the nonprofit is run and how decisions are made.

The business plan

After you've committed to launching a new nonprofit and formulated the mission statement, the next essential step is to create a sound business plan that includes:

- **Executive summary** - This covers the fundamentals of the nonprofit organization and should include information about what the product/service is, who the clients are, and what you hope for the future of the organization. This section should be written last as it is a summary of everything else in the business plan. Keep it brief, clear, and interesting.
- **Company description** - This is an overview of the nonprofit and its mission. This part should include company goals and objectives as well as the encouraged business philosophy that will guide how the nonprofit is run. Include a description of the company's strengths and your own relevant background experience. You can also include in this section a description of your industry and any foreseeable changes in the industry.
- **Products/services description** - In this section, describe in detail the products and services to be offered. Include information about the competitive advantages and disadvantages of your organization. Also include any relevant pricing information.
- **Marketing plan** - The plan should begin with a description of market research you have already conducted. Conduct research to learn about your intended industry, community need, the demographic profile of your targeted clients, and any possible competitors or partner organizations. Summarize basic facts about your industry – total size of the market, current demand in the market, barriers to entry, etc. Explain how clients will benefit from your specific products or services. Describe the demographics of your targeted clients and be sure to include age, gender, location, income level, social class, occupation, and education. Describe possible competitors and in what specific areas you will have to compete with them. Based on all this market research, define a marketing strategy that plays to your strengths and targets a relatively untapped part of the market. Consider how you plan to promote the nonprofit to this specific portion of the market.
- **Operational plan** - This section should outline the daily operation plans of the nonprofit. Include information about how and where products/services are produced, the location of the business, any legal issues (i.e. permits, health regulations, patents, etc), and how to manage personnel.
- **Management and organization** - This section defines how the nonprofit is managed and run. It could be useful to include an organization chart with the management hierarchy and job descriptions. You should also include information about how the Board of Directors should be run and the bylaws (see the next section).
- **Financial plan** - You must also include a financial plan that consists of projections and budgets for the nonprofit's performance for at least the next three years. Describe your accounting and bookkeeping systems, as well as your fundraising plans.
- **Appendix** - An appendix may also be necessary to address any other issues or to include more detailed information for any of the sections.

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Incorporating the New Nonprofit:

With the mission statement and a business plan set up, the next step typically is to incorporate the nonprofit organization and file for tax-exempt status. We recommend that you get some legal guidance as you incorporate a new nonprofit organization and seek 501(c) status. It can be a tricky and tedious process, and a lawyer who specializes in nonprofit organizations can definitely give you a big hand.

Articles of Incorporation

To incorporate a nonprofit organization, you must file the organization's Articles of Incorporation with the Virginia State Corporation Commission. The Articles of Incorporation is a legal document that contains the nonprofit's basic information, including:

- Name of the nonprofit
- Name and address of registered agent
- Legal address of the nonprofit
- Duration of the nonprofit corporation
- Name of incorporators(s)
- Name and address of directors
- Statement of purpose

For a sample, see [here](#).

Note: Before you file your Articles of Incorporation, check with the State Corporation Commission to confirm availability of the corporation name. (contact the Clerk's Office of the Virginia State Corporation Commission, 804-371-9733 or 866-722-2551).

Bylaws

You must also set up bylaws for your nonprofit. Bylaws outline the organization's structure, create the governing board, and dictate the basic operational and administrative mechanisms of

the nonprofit. You are not required to file bylaws with the state, but you are expected to have them readily available. The bylaws should address issues such as:

- Responsibilities and organization of the board of directors (including size, length of terms, manner of elections, and meetings)
- If and how committees will be set up
- Information about lead staff
- Fiscal management
- Membership regulations, if any

Next Steps

While you are completing the organization's corporate documents, recruit and/or appoint the board of directors (see next section). Once you receive your Certificate of Incorporation from the State Corporation Commission:

- Hold an organizational meeting to appoint directors, adopt the bylaws, and go over the business plan
- Create a records book to store the organization's important documents

Don't forget to get your employer identification number:

- Request from the IRS, done via [online application](#)
- [Apply](#) for an account number with the Virginia Employment Commission

And register with the appropriate state agencies:

- Virginia Department of Agriculture and Consumer Services to [register](#) as a charitable organization
- Department of Revenue to [register](#) for state business taxes

Apply for 501(c)(3) [tax exemption](#). For more information, please refer to [here](#).

References

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Board of Directors:

The final crucial step of launching your new nonprofit organization is to set up the first board of directors. The board of directors is the governing body of the nonprofit and is primarily responsible for establishing and promoting the nonprofit's mission and direction.

Choosing the first board

This first group of board members will be vital in helping you start up the new nonprofit. At the beginning, you will likely want to recruit board members that have the following qualifications:

Genuine interest in the mission of the nonprofit
Time and energy to commit
Useful expertise (i.e. financial, fundraising, strategic planning, etc)

Ideal first board members would have served on boards before and have a good understanding of clients' needs. It is best if they are independent from the staff and have no business affiliation with the nonprofit, and recommended that they represent as diverse cross-section of the community as needed.

Board responsibilities and tasks

- Establish and evaluate the organization's vision, mission, and direction
- Ensure the financial health of the organization
- Ensure the organization has sufficient and appropriate human resources
- Direct organizational operations
- Maintain effective relations with the community and other stakeholders
- Hire and work with the executive director (see table below)

Adapted from ["Board Responsibilities"](#)

Individual board member expectations

- Understand the organization's mission and mandate, be aware of issues that are relevant to the organization, and keep up to date on relevant trends in the community
- Understand all financial and budgetary matters
- Ensure that the organization's legal affairs are in order
- Keep board discussions confidential
- Bring their own training, skills, and experience to all board decisions

Adapted from "[Board Responsibilities](#)".

Initial meeting agenda

- Review and approve:
 - Mission statement
 - Articles of Incorporation
 - Bylaws
 - Business plan

- Select board officers (President/Chair, Vice Chair, Secretary, Treasurer)

Differences between the board and the executive director

The board of directors is responsible for the governance of the nonprofit and for establishing key policies. Most often, board members are volunteers. The executive director (or president/CEO) is the key leadership staff whose main responsibility is to implement the vision of the organization. The executive director runs the day-to-day operations of the nonprofit.

The following table describes further the different responsibilities of the board and the executive director.

Responsibility	Board of Directors	Executive Director
<i>Legal</i>	<p>Exercises fiduciary role to ensure that the organization is properly managed. The Board should have a mechanism to validate information from the Executive Director.</p> <p>Maintains corporate status; ensures that proper paperwork is submitted to governmental agencies.</p> <p>Reviews financial and business dealings to protect the organization from lapsing into private foundation status and exercises proper judgment in self-dealing</p>	<p>Must provide information to the Board to demonstrate that the organization is well managed.</p> <p>Compiles information for annual filing requirements.</p> <p>Signals if either of these situations is likely to occur.</p>

	transactions.	
<i>Finance/ accounting</i>	<p>Approves annual budget.</p> <p>Reviews periodic financial reports (balance sheet, income statement, changes in financial position).</p> <p>Ensures that proper internal controls are in place.</p>	<p>Prepares annual budget with input from staff and/or accounting department.</p> <p>Oversees preparation of periodic financial reports.</p> <p>Implements proper financial controls.</p>
<i>Planning</i>	<p>Establishes mission and program direction for organization.</p> <p>Reviews program plan and progress. Conducts or reviews program evaluation plan.</p>	<p>Develops specific program goals and objectives based on the board-specified mission.</p> <p>Develops reports or oversees staff development of reports to demonstrate program progress.</p>
<i>Policy</i>	Sets policy.	Implements policy (the specific operational decisions are the staff's responsibility).
<i>Personnel</i>	<p>Elects officers.</p> <p>Hires Executive Director/Officer and evaluates performance.</p> <p>Reviews personnel policies.</p>	<p>Implements personnel policies.</p> <p>Hires all other personnel and evaluates performance of staff members (or delegates to appropriate supervisor).</p>
<i>Resource Development</i>	Establishes fundraising goals and participates in	Conduct fundraising research and directs

	fundraising efforts. Determines feasibility of fundraising goals.	fundraising strategy. Directs staff assistance with fundraising efforts.
<i>Board governance</i>	Oversees maintenance of minutes, attendance records, and board evaluation. Recruits new board members.	Office staff may assist with preparation and distribution of minutes. May suggest names for consideration as board members.

Adapted from “Get Ready, Get Set: What you need to know before starting a nonprofit” by Peter B. Manzo and Alice Espey.

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